

APPENDIX C

FORM OF CONTINUING DISCLOSURE AGREEMENT

Relating to

\$385,000,000

CERTIFICATES OF UNDIVIDED INTEREST

(In Installment Payments

Payable From Net System Revenues

of the Water Utility Fund of the City of San Diego, California) Series 1998

This Continuing Disclosure Agreement (this "Disclosure Agreement") is executed and delivered by the City of San Diego (the "City") and the State Street Bank and Trust Company of California, N.A. (the "Dissemination Agent") in connection with the execution and delivery of \$385,000,000 Certificates of Undivided Interest (In Installment Payments Payable From Net System Revenues of the Water Utility Fund of the City of San Diego, California) Series 1998 (the "Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of August 1, 1998, among the City, the San Diego Facilities and Equipment Leasing Corporation (the "Corporation") and State Street Bank and Trust Company of California, N.A., as trustee (the "Trustee"). Principal and interest evidenced by the Certificates will be paid from installment payments made by the City pursuant to a Master Installment Purchase Agreement, dated as of August 1, 1998, between the Corporation and the City, as amended by the 1998 Supplement, dated as of August 1, 1998, between the City and the Corporation (collectively, the "Installment Purchase Agreement"). Pursuant to Section 6.08 of the Trust Agreement, the City and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Dissemination Agent for the benefit of the Owners and Beneficial Owners of the Certificates and in order to assist the Participating Underwriters in complying with the Rule (defined below). The City and the Dissemination Agent acknowledge that the Corporation has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Owner or Beneficial Owner of the Certificates, with respect to the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the Deputy City Manager of the City or his or her designee, or such other person as the City shall designate in writing to the Dissemination Agent and the Trustee from time to time.

"Dissemination Agent" shall mean State Street Bank and Trust Company of California, N.A., or any successor Dissemination Agent designated in writing by the City which has filed with the Trustee a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Participating Underwriter" shall mean any of the original underwriters of the Certificates required to comply with the Rule in connection with offering of the Certificates.

"Repository" shall mean each National Repository and the State Repository, if any.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (which fiscal year presently ends June 30), commencing with the report for the 1998-99 fiscal year, provide to each Repository and the Dissemination Agent an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Dissemination Agent shall have no duty or obligation to review such Annual Report. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the City shall provide the Annual Report to the Dissemination Agent. If by such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to inquire if the City is in compliance with the first sentence of this subsection (b).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

- (i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and
- (ii) file a report with the City, the Corporation and the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board or as otherwise required by applicable State law. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3 (a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained

in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) An update of the information contained in Table 2 of the Official Statement, dated August 4, 1998 (the "Official Statement"), relating to the Certificates, for the most recently completed fiscal year.

(c) An update of the information contained in Table 3 of the Official Statement for the five most recently completed fiscal years.

(d) An update of the information contained in Table 4 of the Official Statement for the five most recently completed fiscal years.

(e) An update of the information contained in Table 5 of the Official Statement for the five most recently completed fiscal years.

(f) An update of the information contained in Table 6 of the Official Statement for the five most recently completed fiscal years.

(g) An update of the information contained in Table 7 of the Official Statement for the five most recently completed fiscal years.

(h) An update of the information contained in Table 8 of the Official Statement for the five most recently completed fiscal years.

(i) Information contained in Table 9 of the Official Statement will be available either in the City's audited financial statements, or will be updated in the Annual Report in tabular form similar to Table 9.

(j) Information contained in Table 10 of the Official Statement will be available either in the City's audited financial statements, or will be updated in the Annual Report in tabular form similar to Table 10.

(k) Information contained in Table 11 of the Official Statement will be available either in the City's audited financial statements, or will be updated in the Annual Report in tabular form similar to Table 11.

(l) An update of the information contained in the Official Statement under the heading "PENSION PLAN" for the most recently completed fiscal year.

(m) An update of the information contained in the Official Statement under the heading "LABOR RELATIONS" for the most recently completed fiscal year.

(n) An update of the information contained in Table 12 of the Official Statement for the five most recently completed fiscal years.

(o) An update of the information contained in the Official Statement under the heading "INVESTMENT OF FUNDS - Pool Liquidity and Other Characteristics," " - Derivatives" and " - Reverse Repurchase Agreements" and contained in Table 13 of the Official Statement for the most recently completed fiscal year.

SECTION 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;

- (iii) modifications to rights of owners of the Certificates;
- (iv) optional, contingent or unscheduled bond calls;
- (v) defeasances;
- (vi) rating changes;
- (vii) adverse tax opinions or events affecting the tax-exempt status of the Certificates;
- (viii) unscheduled draws on debt service reserves reflecting financial difficulties.
- (ix) unscheduled draws on credit enhancements reflecting financial difficulties;
- (x) substitution of credit or liquidity providers, or their failure to perform;
- (xi) release, substitution or sale of property securing repayment of the Certificates.

(b) The Dissemination Agent shall, as soon as reasonably practicable after obtaining actual knowledge of the occurrence of any of the Listed Events contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) and promptly direct the Dissemination Agent whether or not to report such event to the owners of the Certificates. In the absence of such direction, the Dissemination Agent shall not report such event unless otherwise required to be reported by the Dissemination Agent in its capacity as Trustee under the Trust Agreement. The Dissemination Agent may conclusively rely upon such direction (or lack thereof). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the Dissemination Agent, if other than the Trustee, and if the Dissemination Agent is the Trustee, then by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Trust Agreement. The Dissemination Agent shall have no responsibility to determine the materiality of any of the Listed Events.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the City has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the Repositories with a copy to the City. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Owners of affected Certificates pursuant to the Trust Agreement.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates. If the City's obligations under the Installment Purchase Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the City and the City shall have no further responsibility hereunder. If such termination occurs prior to the final maturity of the

Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be State Street Bank and Trust Company of California, N.A. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement.

SECTION 8. Amendment: Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the City, provided, the Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

- (a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Certificates, or the type of business conducted;
- (b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) The amendment or waiver either (i) is approved by the Owners of the Certificates in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Owners, or (ii) does not, in the opinion of the Dissemination Agent or nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Certificates.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Agreement, pursuant to Section 6.08 of the Trust Agreement, the Trustee may (and, at the request of any Participating Underwriter, the Owners of at least 25% in aggregate principal amount of Outstanding Certificates, shall), or any Owner or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A

default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement or the Installment Purchase Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Corporation, the Owners of the Certificates or any other party. The Dissemination Agent shall not have any liability to the Owners of the Certificates or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Disclosure Agreement. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

SECTION 12. Notices. Any notices or communications to or among any of the parties related to this Disclosure Agreement may be given as follows:

To the City: City of San Diego
 Financial and Technical Services Business Center
 202 C Street, M.S. 9-B
 San Diego, California 92101-3868
 Attention: Ms. Patricia T. Frazier, Deputy City Manager
 Telephone: (619)236-6070
 Fax: (619)236-7344

To the Dissemination Agent State Street Bank and Trust Company of California, N.A.
 633 5th Street, 12th Floor
 Los Angeles, California 90071
 Attention: Corporate Trust Department
 Telephone: (213)362-7345
 Fax: (213)362-7357

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Corporation, the City, the Dissemination Agent, the Participating Underwriters and Owners and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: August 18, 1998

CITY OF SAN DIEGO

By: _____
Title: City Manager

STATE STREET BANK AND TRUST
COMPANY OF CALIFORNIA, N.A.,
as Trustee,

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of San Diego
Name of Issue: Certificates of Undivided Interest (In Installment Payments Payable
From the Water Utility Fund of the City of San Diego, California)
Series 1998
Name of Obligated Person: City of San Diego
Date of Issuance: August 18, 1998

NOTICE IS HEREBY GIVEN that the City of San Diego has not provided an Annual Report with respect to the above-named Certificates as required by Section 6.08 of the Trust Agreement, dated as of August 1, 1998 among the San Diego Facilities and Equipment Leasing Corporation, the City and State Street Bank and Trust Company of California, N.A., as trustee. [The City anticipates that the Annual Report will be filed by _____.]

Dated: _____

STATE STREET BANK AND TRUST COMPANY OF
CALIFORNIA, N.A.,
as Dissemination Agent, on behalf of the City of San Diego

By: _____

cc: City of San Diego